



Actuarial Office
P.O. Box 942709
Sacramento, CA 94229-2709
Telecommunications Device for the Deaf - (916) 326-3240
FAX (916) 326-3005

May 13, 2008

AGENDA ITEM 5

TO: MEMBERS OF THE BENEFITS AND PROGRAM ADMINISTRATION COMMITTEE

I. SUBJECT: 2006/2007 State Industrial Disability Cost Report

II. PROGRAM: Actuarial and Employer Services

III. RECOMMENDATION:

Staff recommends that the Benefits and Program Administration Committee approve the 2006/2007 State Employers' Industrial Disability Cost Report (IDR) and move for adoption by the Board with the instructions to file this report with the Governor and the Legislature.

IV. ANALYSIS:

The Public Employees' Retirement Law (PERL), Section 20238, requires this report on an annual basis. This report presents the Incurred Industrial Disability cost by department, for State industrial disabilities processed in the period commencing with the 2003/2004 fiscal year and ending with the 2006/2007 fiscal year.

V. STRATEGIC PLAN:

This item is not a specific product of the Strategic or Annual Plan but is part of the regular and ongoing workload of the Actuarial & Employer Services Division.

VI. RESULTS/COSTS:

See Attached Report.

William Kasirye, Research Program Specialist II
Actuarial Office

David Lamoureux, F.S.A., M.A.A.A.
Supervising Pension Actuary, CalPERS
Actuarial Office

Ron Seeling, Chief Actuary
Actuarial & Employer Services Branch



Board of Administration
P.O. Box 942701
Sacramento, CA 94229-2701
(916) 795-3932

May 15, 2008

The Honorable Arnold Schwarzenegger
Governor, State of California

Honorable Members of the California Legislature

The Board of Administration of the California Public Employees' Retirement System (CalPERS) has completed the State Employers' Industrial Disability Cost Report for the 2006/2007 fiscal year. This report is in response to the legislative mandate of Section 20238 of the Government Code.

This report includes retirements placed on the roll, and the "incurred cost" by employer, commencing with the 2003/2004 fiscal year and ending with the 2006/2007 fiscal year.

This report is produced for a limited and specific purpose and its use for other needs may be inappropriate.

The Board is pleased to distribute this information and provide employers with a continued awareness of the costs associated with industrial disability retirements.

Respectfully,

Rob Feckner, President
CalPERS Board of Administration



Report

Public Employees' Retirement System

Actuarial Office

P.O. Box 1494

Sacramento, CA 95812-1494

Telecommunications Device for the Deaf - (916) 795-3240

1(888) CalPERS (225-7377) FAX (916) 795-3005

STATE EMPLOYERS' INDUSTRIAL DISABILITY COST REPORT

2006/2007 FISCAL YEAR

Introduction

Industrial disability retirement (IDR) in this report applies to State safety, State peace officer/firefighter, State industrial, State patrol, or State miscellaneous members.

The purpose of the disability retirement benefit is to replace a portion of income for a retiree who cannot work because of a job-related injury or illness, which is expected to be permanent or to last indefinitely. Disability retirement determinations are made after a complete review of the member's medical and employment information.

Industrial disability retirement benefits are determined by the provisions of the Public Employees' Retirement Law (PERL) applicable to the member.

Qualifying for Industrial Disability Retirement

In 2006, the California State Legislature passed Assembly Bill 2244 which became effective on January 1, 2007. This bill re-established the standards for evaluating a disability retirement set prior to the California Supreme Court decision, *Nolan v. City of Anaheim*. Once again, CalPERS members qualify for disability retirement benefits if they demonstrate substantial incapacity from performing the usual duties of their position with their current employer only.

Industrial Disability Retirement Benefit

The industrial disability retirement benefit is a monthly allowance equal to 50% of final compensation. However, if a member is eligible for service retirement and if the service retirement benefit is more than the industrial disability retirement benefit, the member may choose to receive the larger benefit. For a CalPERS member not actively employed with the State who became disabled while employed by some other CalPERS employer, the benefit is a return of the accumulated member contributions with interest.

Effective January 1, 2007, Assembly Bill 2936 provides an industrial disability retirement benefit for California Highway Patrol members employed in Bargaining Unit 5 who, as a result of a single event, incur serious bodily injury. The benefit provided is equal to the greater of the current industrial disability retirement benefit, or, three percent of final compensation multiplied by the number of years of service credited to the member, plus an annuity purchased with the accumulated additional contributions, if any.

Legislative Background

This is the twenty-first annual State Employers' Industrial Disability Cost Report. This report presents information for the 2003/2004 through the 2006/2007 fiscal years as required by Section 20238 of the Public Employees' Retirement Law (PERL) which reads:

"In addition to any other reports that it may be required to make by law, the board shall annually file, commencing January 1, 1987, a separate report to the Legislature and each appointing power and other appointing authority on the number of new state retirees, by individual state employer, that are processed in the immediately preceding fiscal year to the service, disability, and industrial disability retirement rolls and on the incurred cost of the system for the State members for the immediately preceding three fiscal years.

As used in this report, "incurred cost" means all paid and expected future costs of an industrial disability retirement. There shall be deducted from the gross incurred costs the amount of service time accrued by an employee."

Assumptions and Methods

For purposes of this report, "expected future costs of an industrial disability retirement" has been interpreted as the actuarial present value of the industrial disability retirement payments to the member and his beneficiaries from the valuation date. "The amount of service time accrued by an employee" has been interpreted as the actuarial present value of the service retirement payments to the member and his or her beneficiaries assuming the member were to take the earliest eligible service retirement. Actuarial present values for all payments have been calculated based on the industrial disability retirement or service retirement mortality tables and the interest discount rate adopted by the CalPERS Board of Administration.

Results

Major findings regarding new state retirees placed on the roll in the 2006/2007 fiscal year by state plan and by individual state employer are presented in the following pages and summarized in tables 1 through 5.

Summary Statistics

Summary statistics for industrial disability retirees placed on the roll during July 1, 2006 through June 30, 2007 fiscal year, are shown in table 1. For comparison, summary statistics for industrial disability retirees placed on the roll during the July 1, 2005 through June 30, 2006 fiscal year are also provided.

Table 1: Summary Statistics for New IDR's by State Plan

State Plan	2005 - 2006				2006 - 2007			
	Number of Retirees	Average Years of Service	Average Monthly Benefit	Average Age At Retirement	Number of Retirees	Average Years of Service	Average Monthly Benefit	Average Age At Retirement
Miscellaneous Tier 1	11	5.7	1,304	49	2	15.8	1,678	52
Miscellaneous Tier 2	3	10.5	1,825	40	0	N/A	N/A	N/A
Industrial	6	14.2	2,273	56	7	14.9	2,007	46
Safety	190	9.8	2,051	55	144	12.2	2,456	53
Peace Officers & Firefighters	480	15.1	3,250	50	315	16.1	3,478	48
California Highway Patrol	172	26.6	6,294	52	63	23.9	5,487	50
Total	862	16.1	3,556	52	531	15.9	3,413	50

Retirees not actively employed by the State prior to becoming disabled are excluded from the number of retirees in the above table. However, they are included in the total number of new state IDR retirements placed on the roll shown in table 3.

Normal Cost Rates

Normal cost rates for 2006/2007 and 2007/2008 fiscal years for ordinary and industrial disability retirements by State plan are presented in table 2.

The normal cost represents the cost assigned to an average member for a given year such that it would meet the continuing costs of a particular benefit if contributed each year starting with the date of membership. Therefore, a plan's industrial disability normal cost rate reflects the expected cost of its industrial disabilities. However, it should be borne in mind that some of the industrial disabilities do not really increase the total cost, because a member chooses to receive a service retirement benefit which is more than the industrial disability retirement benefit.

Table 2: Normal Cost by State Plan

State Plan	2006 - 2007			2007 - 2008		
	Normal Cost			Normal Cost		
	Ordinary Disability	Industrial Disability	Net Employer	Ordinary Disability	Industrial Disability	Net Employer
Miscellaneous Tier 1	0.861%	N/A	10.093%	0.849%	N/A	9.914%
Miscellaneous Tier 2	1.225%	N/A	9.874%	1.224%	N/A	9.846%
Industrial	1.787%	0.185%	13.844%	1.759%	0.184%	13.671%
Safety	0.652%	4.073%	15.903%	0.645%	4.041%	15.510%
Peace Officers & Firefighters	0.338%	5.869%	17.389%	0.344%	5.829%	17.691%
California Highway Patrol	0.061%	10.348%	16.652%	0.061%	10.357%	16.608%

Additional information regarding the 2006-2007 contribution rates can be found in the June 30, 2005 State & Schools Actuarial Valuation Report, and additional information regarding the 2007-2008 contribution rates can be found in the June 30, 2006 State & Schools Actuarial Valuation Report.

New State Retirees

There were 549 new IDR's placed on the roll for the 2006/2007 fiscal year, a decrease of 37% over the 2005/2006 fiscal year. This decline was mostly due to the fact that the number of IDR's in the 2005/2006 fiscal year was higher than usual because of a backlog of claims cleared late in that year. Of the 549 new IDR's, there was no incurred cost for 150 retirees who chose to receive a service retirement benefit which was more than the industrial disability retirement benefit. There was also no cost for 18 CalPERS members who were employed by a local agency or school at the time of their disability, and were not actively employed by the State at that time.

The total number of service and disability retirements for the past four fiscal years is shown in table 3 below.

Table 3: Number of State Retirees by Type of Retirement

Fiscal Year	Service	Ordinary Disability	Industrial Disability	All Disabilities	Total Service and All Disabilities
2003/2004					
Number	7,411	508	578	1,086	8,497
% Change	3.90%	-14.50%	-17.90%	-16.30%	0.70%
2004/2005					
Number	9,645	393	367	760	10,405
% Change	30.10%	-22.60%	-36.50%	-30.00%	22.50%
2005/2006					
Number	8,655	640	872	1,512	10,167
% Change	-10.30%	62.80%	137.60%	98.90%	-2.30%
2006/2007					
Number	7,707	507	549	1,056	8,763
% Change	-11.00%	-20.80%	-37.00%	-30.20%	-13.80%

Disability retirement applications during fiscal years 2004/2005, 2005/2006 and through December 31, 2006 were processed based on the Nolan criteria. Although applying the Nolan criteria did not lead to any disability retirement applications with a different outcome, the decision affected the way CalPERS processed disability retirement determinations. There was a halt to processing of applications while staff determined how to proceed consistent with the new requirements.

In 2006, the California State Legislature passed Assembly Bill 2244 which became effective on January 1, 2007. Under this new bill CalPERS members qualify for disability retirement benefits if they demonstrate substantial incapacity from performing the usual duties of their position with their current employer only.

Due to changes in standards under which disability retirement applications were reviewed, year to year comparisons of results in this report or with results in prior reports may be inappropriate.

Estimated IDR Incurred Cost

The average cost of an Industrial disability retirement (IDR) for the most recent four fiscal years is shown in table 4. The IDR incurred cost column in table 4 and table 5, shows the difference between the total present value of IDR benefits payable and the total present value of service retirement benefits earned assuming the member were to take the earliest eligible service retirement. Both present values were calculated as of June 30, 2007.

The "IDR incurred cost" for each IDR varies considerably depending upon the member's age at disability retirement, member's final average compensation, credited service, and the benefit formula under which the member is covered. The cost for an individual may be zero. This is because a member, if qualified for service retirement, will receive an IDR benefit based upon the service retirement formula if such a benefit is greater.

Table 4: Estimated Incurred Cost for Industrial Disability Retirements

Fiscal Year	Highest Individual Employer Average Incurred Cost	IDR Incurred Cost	Average Incurred Cost
2003/2004			
Amount	457,000	105,988,000	183,370
% Change	15.10%	-15.50%	3.00%
2004/2005			
Amount	461,000	62,587,000	170,537
% Change	0.88%	-40.95%	-7.00%
2005/2006			
Amount	360,000	121,179,000	138,967
% Change	-21.91%	93.62%	-18.51%
2006/2007			
Amount	409,000	95,519,000	173,987
% Change	13.61%	-21.18%	25.20%

The cost of industrial disability retirements and the counts of service, ordinary disability, and industrial disability retirements by individual State employer are presented in table 5 on the next page.